

Salt Lake Arts Council Foundation
(A Non-profit organization and a
component unit of Salt Lake City Corporation)

**Basic Financial Statements and
Report of Independent Certified Public Accountants**

June 30, 2006

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OSBORNE, ROBBINS & BUHLER, P.L.L.C. Certified Public Accountants

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REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

Board of Trustees
Salt Lake Arts Council Foundation

We have audited the accompanying financial statements of the governmental activities and the general fund of Salt Lake Arts Council Foundation (the Foundation), a component unit of Salt Lake City Corporation, Utah, as of and for the year ended June 30, 2006, which collectively comprise the Foundation's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the Foundation's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and the general fund of Salt Lake Arts Council Foundation as of June 30, 2006, and the respective changes in financial position thereof for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated August 18, 2006 on our consideration of the Foundation's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Governmental Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The management's discussion and analysis and the budgetary comparison information on pages 2 through 6 and 23, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquires of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Osborne Robbins & Buhler PLLC

August 18, 2006

Salt Lake Arts Council Foundation

Management's Discussion and Analysis (Unaudited)

For the Year Ended June 30, 2005

Our discussion and analysis of the Foundation's financial performance provides an overview of the Foundation's financial activities for the fiscal year ended June 30, 2006. Please read it in conjunction with the Foundation's financial statements which begin on page 8.

FINANCIAL HIGHLIGHTS

- The assets of the Foundation exceeded its liabilities at June 30, 2006 by \$170,598 (\$229,036 in 2005). Of this amount, \$32,296 in 2006 (\$78,737 in 2005) may be used to meet the Foundation's ongoing operations (unrestricted net assets).
- The Foundation's total net assets decreased during 2006 by \$58,438 and during 2005 by \$33,814. Grants and contributions were higher in 2006 than the prior year as were revenues from beverage sales at the Twilight Concerts, but those increases were met with increases in expenses including city arts grants awarded, artists' fees, event production costs and merchandise purchases.

OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report consists of a series of financial statements.

Foundation-wide Financial Statements

The Statement of Net Assets presents information on all the Foundation's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Foundation is improving or deteriorating.

The Statement of Activities presents information showing how the Foundation's net assets changed during the year presented. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of the related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future periods (such as earned but unused vacation leave).

Fund Financial Statements

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Foundation maintains only one fund – the General Fund which is a governmental fund.

The Governmental fund financial statements differ from the Foundation-wide financial statements in that they focus on near-term inflows and outflows of spendable resources as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating the Foundation's near-term financing requirements.

FINANCIAL ANALYSIS OF THE FOUNDATION

To begin our analysis, a summary of the Foundation's Net Assets is presented in Table A-1.

As noted earlier, net assets may serve, over time, as a useful indicator of the Foundation's financial position. As of June 30, 2006, the Foundation's assets exceeded liabilities by \$170,598 (\$229,036 in 2005).

Salt Lake Arts Council Foundation
Management's Discussion and Analysis (Unaudited)
For the Year Ended June 30, 2005

Most of the Foundation's net assets (81 percent in 2006 and 66 percent in 2005) reflects its investment in capital assets (e.g. buildings and improvements, event equipment, and office furniture and equipment). As of June 30, 2006 and 2005, there is no debt associated with the acquisition of these assets. These assets are used by the Foundation to conduct its programs and consequently, are not available for future spending.

The Foundation has no net assets that are subject to external restrictions.

At the end of the 2006 and 2005 fiscal years, the Foundation is able to report positive balances in both of the applicable net asset categories.

TABLE A-1
Statement of Net Assets
June 30,

	<u>2006</u>	<u>2005</u>
Current assets	\$218,399	\$225,322
Capital assets	<u>138,302</u>	<u>150,299</u>
Total assets	<u>356,701</u>	<u>375,621</u>
Noncurrent liabilities	67,089	60,121
Other liabilities	<u>119,014</u>	<u>86,464</u>
Total liabilities	<u>186,103</u>	<u>146,585</u>
Net assets invested in capital assets	138,302	150,299
Net assets unrestricted	<u>32,296</u>	<u>78,737</u>
Total net assets	<u>\$170,598</u>	<u>\$229,036</u>

A summary of the Foundation's changes in net assets is present in Table A-2.

In total, revenues increased from \$1,021,236 in 2005 to \$1,186,252 in 2006. One reason for the increase related to merchandise sales which increased by \$52,405 from 2005 to 2006. Additionally, operating grants and contributions increased by \$140,522 during 2006 while grants and contributions not restricted to specific programs increased by \$54,813, which include an increase in the funding the Foundation receives from the Salt Lake County Zoo, Arts and Parks program, approximately \$90,000 in in-kind contributions received during 2006 and approximately \$92,000 received from the Salt Lake City RDA for public art projects.

Total expenses in 2006 were \$1,244,690 compared to \$1,055,050 in 2005. Expenses related to the Twilight Concert Series increased \$51,187 over 2005, due primarily to an increase in the amounts paid to participating artists and merchandise purchased for the events. Expenses related to the Public Art projects increased by \$77,738 over 2005, related primarily to expenses associated with a new project in downtown Salt Lake City called Flying Objects. Total City Arts Grants expenses increased by \$24,167, due primarily to an additional \$20,000 in grants being awarded – all of which was funded through additional amounts transferred from Salt Lake City. Other expenses remained relatively flat compared to 2005.

Salt Lake Arts Council Foundation
Management's Discussion and Analysis (Unaudited)
For the Year Ended June 30, 2005

TABLE A-2
Changes in Net Assets
Years ending June 30,

	<u>2006</u>	<u>2005</u>
Revenues:		
Program revenues:		
Vendor fees	\$ 13,460	\$ 15,250
Merchandise sales	217,594	165,189
Gallery commission	5,972	6,432
Operating grants and contributions	254,997	107,937
General revenues:		
Grants and contributions not restricted to specific programs	163,669	218,482
Rental income	4,465	5,745
Interest income	2,512	3,916
Miscellaneous revenues	-	2,280
Transfers from Salt Lake City Corporation	523,583	496,005
Total revenues	<u>1,186,252</u>	<u>1,021,236</u>
Expenses:		
Administration	71,735	69,896
City Arts Grants	185,625	161,458
Brown Bag Concert Series	63,123	64,080
Twilight Concert Series	412,585	361,398
Living Traditions Festival	243,374	217,410
Visual Arts Exhibitions	56,461	51,037
Public Art	139,070	61,332
Other program services	60,720	56,212
Depreciation	11,997	12,227
Total expenses	<u>1,244,690</u>	<u>1,055,050</u>
Decrease in net assets	<u>(58,438)</u>	<u>(33,814)</u>
Net assets at beginning of year	<u>229,036</u>	<u>262,850</u>
Net assets at end of year	<u>\$ 170,598</u>	<u>\$ 229,036</u>

BUDGETARY HIGHLIGHTS

The Foundation is required by law to adopt an annual budget. Generally, at the April, May or June board meeting a budget for the upcoming year is reviewed by the executive committee and then presented to the board for discussion and adoption. At 6 months into the fiscal year, the budget is reviewed and any potential increases are reviewed and presented to the board prior to being adopted.

**Salt Lake Arts Council Foundation
Management's Discussion and Analysis (Unaudited)
For the Year Ended June 30, 2005**

During the year ended June 30, 2006, budgeted revenues were adjusted by approximately \$108,000 to reflect an increase in budgeted grants and contributions (including in-kind contributions), and merchandise sales and gallery commissions, as well as a slight decrease in vendor fees and rental income. Budgeted expenses were also adjusted to reflect an anticipated increase of approximately \$102,000, which was related, in large part, to approximately \$90,000 of expenses budgeted to be funded by in-kind contributions such as advertising.

The Foundation's budget philosophy for the year ending June 30, 2006, was to maintain the level and quality of programs and services for the public, as long as the unreserved net assets stayed within the acceptable range as determined by board policy. The fiscal year has ended with an unacceptable level, based on board policy, for the unrestricted net assets. The board will be addressing fiscal policy and operations during the 2006-2007 fiscal year. Reduction or elimination of programs will be part of the discussion. As always, the Foundation faces the challenge of securing public and private funding that adequately meets increasing costs.

For both the Guest Writers Series and the Public Art Program, certain expenses are not reflected in this report. For the Guest Writers Series, our program partner, the University of Utah, pays the artists' fees directly. For the Public Art Program, the artists' fees are generally paid through capital accounts, from Salt Lake City's general fund, the Redevelopment Agency of Salt Lake City, the Community Development Block Grant program of Salt Lake City, and the Utah Transit Authority. Although these figures are not recognized in this report, the total of artists' fees paid in the Public Art program for the year ending June 30, 2006, was approximately \$247,000.

In general, the year ending June 30, 2006, represented a concerted effort by the Foundation to maintain the quality and quantity of programs and services to the public without measurable diminution or disruption. The Foundation managed to do so, but will not be able to continue in the future without a significant influx of new revenue.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At the end of fiscal year 2006, there was \$389,282 invested in capital assets, as shown in Table A-3. This amount did not change significantly from the prior year.

**TABLE A-3
Capital Assets at Cost**

	June 30, 2006	June 30, 2005
Building and improvements	\$348,318	\$348,318
Event equipment	34,945	34,945
Office furniture and equipment	6,019	6,019
Total	<u>\$389,282</u>	<u>\$389,282</u>

Additional information on the Foundation's capital assets can be found in Note D on page 19 of this report.

**Salt Lake Arts Council Foundation
Management's Discussion and Analysis (Unaudited)
For the Year Ended June 30, 2005**

Long-Term Debt

As of June 30, 2006 and 2005, the only long-term obligation the Foundation had outstanding was related to compensated absences due to employees totaling \$67,259 in 2006 and \$60,291 in 2005.

The Foundation has never issued bonds and has no bond rating.

Additional information on the Foundation's long-term debt can be found in Note E on page 19 of this report.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

As noted earlier, Foundation revenues are not keeping pace with the increasing cost of doing business. The Foundation has submitted, and will continue to submit, requests for funding to new and existing sources, including the State of Utah, Salt Lake County and Salt Lake City Corporation. The Foundation will particularly focus on the level of support provided by Salt Lake City Corporation, which has not increased the annual appropriation to a significant degree for many years. Earned income has increased each year for the past few years. The Foundation will also look to some additional program sponsorships from the private sector.

CONTACTING THE FOUNDATION'S FINANCIAL MANGEMENT

This report is designed to provide a general overview of the Foundation's finances and to demonstrate the Foundation's accountability for the money it receives. If you have questions about this report or need additional information, contact the Foundation's Executive Director at 54 Finch Lane, Salt Lake City, Utah 84102, by phone at (801) 596-5000, or e-mail at nancy.boskoff@ci.slc.ut.us.

BASIC FINANCIAL STATEMENTS

Salt Lake Arts Council Foundation
Statement of Net Assets
June 30, 2006

	<u>Governmental Activities</u>
ASSETS	
Current assets:	
Cash and cash equivalents	\$ 67,573
Grants receivable	99,332
Prepaid expense	51,494
Total current assets	<u>218,399</u>
Noncurrent assets:	
Net capital assets	138,302
Total noncurrent assets	<u>138,302</u>
Total assets	<u><u>\$ 356,701</u></u>
LIABILITIES	
Current liabilities	
Accounts payable and accrued liabilities	\$ 31,239
Grants payable	68,455
Current portion, compensated absences	170
Deferred revenue	19,150
Total current liabilities	<u>119,014</u>
Noncurrent liabilities	
Compensated absences, net of current portion	67,089
Total noncurrent liabilities	<u>67,089</u>
Total liabilities	<u>186,103</u>
NET ASSETS	
Invested in capital assets	138,302
Unrestricted	32,296
Total net assets	<u>170,598</u>
Total liabilities and net assets	<u><u>\$ 356,701</u></u>

See accompanying notes to basic financial statements

Salt Lake Arts Council Foundation
Statement of Activities
For the year ended June 30, 2006

Functions/Programs	Expenses	Indirect Expense Allocation	Program Revenues		Net (Expense) Revenue and Changes in Net Assets
			Vendor fees, Merchandise Sales, Gallery Commissions	Operating Grants and Contributions	Governmental Activities Total
Primary Government					
Governmental activities:					
Administration	\$ 324,459	\$ (252,724)	\$ -	\$ -	\$ (71,735)
City Arts Grants	156,906	28,719	-	-	(185,625)
Brown Bag Concert Series	37,276	25,847	-	-	(63,123)
Twilight Concert Series	352,276	60,309	174,825	90,000	(147,760)
Living Traditions Festival	200,296	43,078	56,229	72,196	(114,949)
Visual Arts Exhibitions	21,999	34,462	5,972	-	(50,489)
Public Art Program	110,351	28,719	-	92,801	(46,269)
Other Program Services	29,130	31,590	-	-	(60,720)
Depreciation Expense	11,997	-	-	-	(11,997)
Total primary government	<u>\$ 1,244,690</u>	<u>\$ -</u>	<u>\$ 237,026</u>	<u>\$ 254,997</u>	<u>(752,667)</u>
General revenues:					
Grants and contributions not restricted to specific programs					163,669
Rental income					4,465
Interest income					2,512
Transfers from Salt Lake City Corporation					<u>523,583</u>
					<u>694,229</u>
Change in net assets					(58,438)
Net assets at beginning of year					<u>229,036</u>
Net assets at end of year					<u>\$ 170,598</u>

See accompanying notes to the basic financial statements.

Salt Lake Arts Council Foundation
Balance Sheet - Governmental Fund
June 30, 2006

	General Fund
ASSETS	
Cash and cash equivalents	\$ 67,573
Grants receivable	99,332
Prepaid expense	51,494
Total assets	<u>\$ 218,399</u>
LIABILITIES	
Accounts payable and accrued liabilities	\$ 31,239
Grants payable	68,455
Deferred revenue	53,074
Total liabilities	<u>152,768</u>
FUND BALANCE	
Reserved for prepaid items	51,494
Unreserved	14,137
Total fund balance	<u>65,631</u>
Total liabilities and fund balance	<u>\$ 218,399</u>

Reconciliation of total governmental fund balance to net assets of governmental activities:	
Total governmental fund balance	\$ 65,631
Amounts reported for governmental activities in the statement of net assets are different because:	
Capital assets used in governmental activities are not financial resources and therefore are not reported in the general fund	138,302
Certain grant revenue is required to be deferred in the general fund	33,924
Long-term liabilities - compensated absences not due and payable in the current period are not recorded as an expenditure or a liability in the general fund	<u>(67,259)</u>
Net assets of governmental activities	<u>\$ 170,598</u>

Salt Lake Arts Council Foundation
Statement of Revenues, Expenditures and Changes in
Fund Balance - Governmental Fund
For the year ended June 30, 2006

	General Fund
Revenues	
Grants and contributions	\$ 413,836
Merchandise sales	217,594
Vendor fees	13,460
Rental income	4,465
Gallery commissions	5,972
Interest income	2,512
Total revenues	<u>657,839</u>
Expenditures	
Current:	
Administration	70,899
City Arts Grants	184,928
Brown Bag Concert Series	62,496
Twilight Concert Series	411,121
Living Traditions Festival	242,329
Visual Arts Exhibitions	55,625
Public Art Program	138,373
Other Program Services	59,954
Total expenditures	<u>1,225,725</u>
Deficiency of revenues over expenditures	<u>(567,886)</u>
Other financing sources (uses)	
Operating transfers from Salt Lake City Corporation	<u>523,583</u>
Total other financing sources and uses	<u>523,583</u>
Net change in fund balance	(44,303)
Fund balance at beginning of year	<u>109,934</u>
Fund balance at end of year	<u><u>\$ 65,631</u></u>

Continued

Salt Lake Arts Council Foundation
Statement of Revenues, Expenditures and Changes in
Fund Balance - Governmental Fund - continued
June 30, 2006

Reconciliation of the change in fund balance - governmental fund to the change in net assets of governmental activities	
Net change in fund balance - governmental fund	\$ (44,303)
Amounts reported for governmental activities in the statement of activities are different because:	
Governmental funds report capital outlays as expenditures while governmental activities report depreciation expense to allocate those expenditures over the life of the assets:	
Capital assets purchases capitalized	-
Depreciation expense	(11,997)
Certain grant revenues reported in the statement of activities are not recognizable in the governmental fund	33,924
Certain grant revenues recognized in the statement of revenues, expenditures and changes in fund balance that were previously recognized in the statement of activities	(29,094)
Some expenses reported in the statement of activities, such as compensated absences, do not require the use of current financial resources and therefore are not reported as expenditures in the governmental fund	(6,968)
Change in net assets of governmental activities	<u>\$ (58,438)</u>

See accompanying notes to the basic financial statements.

Salt Lake Arts Council Foundation
Notes to the Financial Statements
June 30, 2006

NOTE A - SUMMARY OF ACCOUNTING POLICIES

History, organization activity and reporting entity

The Foundation was established as a Utah Nonprofit Corporation in 1979 to promote the arts within Salt Lake City. The Foundation operates in conjunction with, and its trustees are identical to, the Salt Lake City Arts Council, which is an advisory board to the Mayor under Salt Lake City Ordinances. The Foundation is a component unit of Salt Lake City. The Foundation conducts several programs promoting the arts including Living Traditions Festival, the Brown Bag Concert Series, Public Art Program and the Twilight Concert Series. The Foundation also makes grants to local organizations promoting the arts, and operates the Art Barn, a local art center that provides Visual Arts Exhibitions.

Basis of presentation

The Foundation's financial statements are prepared in accordance with generally accepted accounting principles (GAAP). Because the mayor of Salt Lake City appoints the members of the Salt Lake City Arts Council which also makes up the trustees for the Foundation, the Foundation is subject to the requirements of Statement of Governmental Accounting Standards Board (GASB) No. 29, *The Use of Not-for-Profit Accounting and Financial Reporting Principles By Governmental Entities*. This statement does not allow the use of Statement of Financial Accounting Standards (SFAS) No. 116, *Accounting for Contributions Received and Contributions Made*, or SFAS No. 117, *Financial Statements of Not-for-Profit Organizations*. Accordingly, the accompanying financial statements do not reflect the provisions of SFAS Nos. 116 and 117.

The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (Statements and Interpretations). The more significant accounting policies established in GAAP and used by the Foundation are discussed below.

Basic Financial Statements and Basis of Accounting

The Foundation is a government entity, solely accounted for in a general fund and categorized as a governmental-type activity. The Foundation's basic financial statements include both government-wide and fund financial statements.

Government-wide financial statements

The government-wide financial statements are presented on the full accrual, economic resource basis of accounting which recognizes all long-term assets and receivables as well as long-term debt and obligations. Revenues are recognized when earned and expenses are recognized when incurred. The Foundation's net assets are reported in three parts, as applicable – invested in capital assets, net of related debt; restricted net assets; and unrestricted net assets.

Salt Lake Arts Council Foundation
Notes to the Financial Statements
June 30, 2006

NOTE A – SUMMARY OF ACCOUNTING POLICIES - CONTINUED

The government-wide Statement of Activities reports both the gross and net cost of each of the Foundation's functions. The functions are also supported by general government revenues and transfers from Salt Lake City. The Statement of Activities reduces gross expenses (including depreciation) by related program revenues, operating and capital grants. Direct expenses are those that are clearly identifiable with a specific program or function. Indirect expenses for centralized services and administrative overhead are allocated among the programs or functions. Program revenues include 1) vendor fees charged to allow outside vendors to set up a sales booth at certain events, 2) merchandise sold by the Foundation at certain events, 3) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Unrestricted grants and contributions and other revenues not properly included among program revenues are reported instead as general revenues.

This government-wide focus is more on the sustainability of the Foundation as an entity and the change in the Foundation's net assets resulting from the current year's activities.

Fund financial statements

The General Fund is the only fund used by the Foundation. The financial statements of this fund are presented on the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recorded when susceptible to accrual; i.e., both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Foundation considers revenues to be available if they are collected within 60 days of the end of the current fiscal period or if the revenues have not been received at the normal time. Expenditures are generally recognized under the modified accrual basis of accounting when the related fund liability is incurred. However, principal and interest on long-term debt, which is not material, are recognized when paid. Allocations of costs, such as depreciation and amortization are not recognized in governmental funds.

Receivables

Receivables consist of amounts due from grantors and miscellaneous other items. An allowance for doubtful accounts is not considered necessary as of June 30, 2006.

Deposits and investments

The Foundation's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition.

Salt Lake Arts Council Foundation
Notes to the Financial Statements
June 30, 2006

NOTE A – SUMMARY OF ACCOUNTING POLICIES - CONTINUED

Capital assets and depreciation

Capital assets are defined by the Foundation as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of 5 years. The Foundation records its capital assets at cost. Contributed capital assets are valued at their estimated fair market value on the date of contribution. Additions, improvements and other capital outlays that significantly extend the useful life of an asset are capitalized. Maintenance and repairs are charged to current period operating expenses, whereas additions and improvements are capitalized.

Depreciation of property and equipment has been provided using the straight-line method over the following estimated useful lives:

	<u>Years</u>
Building and improvements	5 – 30
Event equipment	5 – 10
Office furniture and equipment	5 – 10

Prepaid items

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded in the general fund as prepaid items.

Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Compensated absences

Vacation leave, compensatory leave, and the portion of sick leave that will eventually be paid are recognized as liabilities as they are earned. In the event of termination or retirement, an employee is reimbursed for unused accumulated vacation. It is the policy of the Foundation to award employees who retire early for their years of service. The award includes a payment of 50%, 75%, or 100% of unused accumulated sick leave depending on the employee's age and years of service.

NOTE B – DEPOSITS AND INVESTMENTS

The Center's deposits and investing are governed by the Utah Money Management Act (*Utah Code*, Title 51, Chapter 7) and rules of the State of Utah Money Management Council.

Custodial Credit Risk – Deposits

The custodial credit risk for deposits is the risk that in the event of a bank failure, the Center's deposits may not be recovered. The Money Management Act requires deposits be in a qualified depository. The Act defines a qualified depository as any financial institution whose deposits are insured by an agency of federal government and which has been certified by the State Commissioner of Financial Institutions as meeting the requirements of the Act and adhering to the rules of the Utah Money Management Council.

Salt Lake Arts Council Foundation
Notes to the Financial Statements
June 30, 2006

NOTE B – DEPOSITS AND INVESTMENTS - CONTINUED

The deposits in the bank in excess of the insured amount are uninsured and uncollateralized. Deposits are not collateralized nor are they required to be by state statute. The deposits for the Foundation at June 30, 2006 were \$44,819, none of which was exposed to custodial credit risk as uninsured and uncollateralized.

Investments

The Money Management Act defines the types of securities authorized as appropriate investments and the conditions for making investment transactions. Investment transactions may be conducted only through qualified depositories, certified dealers, or directly with issuers of investment securities.

The Act authorizes investments in both negotiable and nonnegotiable deposits of qualified depositories and permitted negotiable depositories; repurchase and reverse repurchase agreements; commercial paper that is classified as "first tier" by two nationally recognized statistical rating organizations, one of which must be Moody's Investors Services or Standard & Poor's; bankers' acceptances; obligations of the United States Treasury including bills, notes, and bonds; obligations, other than mortgage derivative products, issued by U.S. government sponsored enterprises (U.S. Agencies) such as the Federal Home Loan Bank System, Federal Home Loan Mortgage Corporation (Freddie Mac), Federal National Mortgage Association (Fannie Mae), and Student Loan Marketing

Association (Sallie Mae); bonds, notes, and other evidence of indebtedness of political subdivisions of the State; fixed rate corporate obligations and variable rate securities rate "A" or higher, or the equivalent of "A" or higher, by two nationally recognized statistical rating organizations; and shares or certificates in a money market mutual fund as defined in the Act.

The Foundation's investments at June 30, 2006 are presented below:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Investment Maturities (in years)</u>			
		<u>Less Than 1</u>	<u>1-5</u>	<u>6-10</u>	<u>More Than 10</u>
Debt Securities					
Utah Public Treasurer's Investment Fund	\$22,754	\$22,754	\$ -	\$ -	\$ -

Interest Rate Risk – Investments

Interest rate risk is the risk that changes in interest rates of debt investments will adversely affect the fair value of an investment.

The Foundation's policy for managing interest rate risk is to comply with the State's Money Management Act. Section 51-7-11 of the Act requires that the remaining term to maturity of investments may not exceed the period of availability of the funds to be invested. The Act further limits the remaining term to maturity on all investments in commercial paper, bankers' acceptances, fixed rate negotiable deposits, and fixed rate corporate obligations to 270-365 days or less. In addition, variable rate negotiable deposits and variable rate securities may not have a remaining term to final maturity exceeding two years.

Salt Lake Arts Council Foundation
Notes to the Financial Statements
June 30, 2006

NOTE B – DEPOSITS AND INVESTMENTS - CONTINUED

Credit Risk of Debt Securities

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The Foundation follows the Money Management Act as previously discussed as its policy for reducing exposure to investment credit risk. The Foundation's rated debt investments are presented below:

<u>Rated Debt Investments</u>	<u>Fair Value</u>	<u>Quality Ratings</u>			
		<u>AAA</u>	<u>AA</u>	<u>A</u>	<u>Unrated</u>
Debt Securities					
Utah Public Treasurer's Investment Fund	\$22,754	\$ -	\$ -	\$ -	\$22,754

Custodial Credit Risk – Investments

Custodial credit risk for investments is the risk that, in the event of a failure of the counter party, the Foundation will not be able to recover the value of the investment or collateral securities that are in the possession of an outside party. The Foundation does not have a formal policy for custodial credit risk.

All of the Foundation's investments at June 30, 2006 were with the Utah Public Treasurer's Investment Fund and therefore are not categorized as to custodial credit risk. Additional information regarding the Utah Public Treasurer's Investment Fund is available at Note C.

Concentration of Credit Risk – Investments

Concentration of credit risk is the risk of a loss attributed to the magnitude of a government's investment in a single issuer.

The Foundation's policy for reducing this risk of loss is to comply with the Rules of the Money Management Council. Rule 17 of the Money Management Council limits investments in a single issuer of commercial paper and corporate obligations to between 5 and 10 percent depending upon the total dollar amount held in the portfolio. The Money Management Council limitations do not apply to securities issued by the U.S. government and its agencies.

All of the Foundation's investments at June 30, 2006 were with the Utah Public Treasurer's Investment Fund and therefore are not categorized as to concentration of credit risk. Additional information regarding the Utah Public Treasurer's Investment Fund is available at Note C.

Salt Lake Arts Council Foundation
Notes to the Financial Statements
June 30, 2006

NOTE C – EXTERNAL INVESTMENT POOL

The Foundation invests in the Public Treasurer's Investment Fund (PTIF) which is an external investment pool administered by Utah State Public Treasurer. State agencies, municipalities, counties, and local governments within the State of Utah are allowed to invest in the PTIF. There is no required participation and no minimum balance or minimum/maximum transaction requirements.

The PTIF is not registered with the SEC as an investment company. The PTIF is authorized and regulated by the Money Management Act, Chapter 51-7, Utah Code Annotated, 1953, as amended. The Act establishes the Money Management Council which oversees the activities of the State Treasurer and the PTIF. The Act details the investments that are authorized which are high-grade securities and, therefore, there is very little credit risk except in the most unusual and unforeseen circumstances. Deposits in the PTIF are not insured or otherwise guaranteed by the State of Utah and participants share proportionally in any realized gains or losses on investments.

The PTIF allocates income and issues statements on a monthly basis. The PTIF operates and reports to participants on an amortized cost basis. The participants' balance is their investment deposited in the PTIF plus their share of income, gains and losses, net of administration fees, which are allocated to each participant on the ratio of each participant's share to the total funds in the PTIF.

Twice a year, at June 30 and December 31, the investments are valued at fair value to enable participants to adjust their investments in this pool at fair value. The Bank of New York and the State of Utah separately determine each security's fair value in accordance with GASB 31 (i.e. for almost all pool investments the quoted market price) and then compare those values to come up with an agreed upon fair value of the securities.

As of June 30, 2006, the Foundation had \$22,754 invested in the PTIF which had a fair value of \$22,747 for an unrealized loss of \$7. Due to the insignificance of this amount, the fair value of the investments in this external investment pool is deemed to be the amortized cost of the investment.

The table below shows statistical information about the investment pool:

<u>Investment Type</u>	<u>Investment Percentage</u>
Corporate bonds and notes	63.05%
Money market agreements and Certificates of deposit	7.23%
U.S. Government securities	29.72%
	<u>100.00%</u>

Salt Lake Arts Council Foundation
Notes to the Financial Statements
June 30, 2006

NOTE D – CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2006 was as follows:

	Balance July 1, 2005	Increases	Decreases	Balance June 30, 2006
Capital assets:				
Buildings and improvements	\$348,318	\$ -	\$ -	\$348,318
Event equipment	34,945	-	-	34,945
Office furniture and equipment	6,019	-	-	6,019
Capital assets at historical cost	389,282	-	-	389,282
Less accumulated depreciation for:				
Buildings and improvements	199,169	10,847	-	210,016
Event equipment	33,795	1,150	-	34,945
Office furniture and equipment	6,019	-	-	6,019
Total accumulated depreciation	238,983	11,997	-	250,980
Total capital assets, net	<u>\$150,299</u>	<u>\$(11,997)</u>	<u>\$ -</u>	<u>\$138,302</u>

NOTE E – LONG-TERM OBLIGATIONS

The following is a summary of changes in long-term obligations for the year ended June 30, 2006:

	Balance July 1, 2005	Additions	Deletions	Balance June 30, 2006	Amounts Due Within One Year
Compensated absences	\$60,291	\$31,077	\$24,109	\$67,259	\$170
	<u>\$60,291</u>	<u>31,077</u>	<u>\$24,109</u>	<u>\$67,259</u>	<u>\$170</u>

Salt Lake Arts Council Foundation
Notes to the Financial Statements
June 30, 2006

NOTE F – OPERATING TRANSFERS

During the year, the Foundation received operating transfers from Salt Lake City Corporation as follows:

Program grants for the following:	
City Arts Grants Program	\$155,000
Public Programs and Operations	80,100
Facility Management	8,500
Foundation expenditures paid by the City	
Salaries and employee benefits	267,734
Office and computer supplies	4,829
Telephone	4,233
Miscellaneous	3,187
	<u>\$523,583</u>

NOTE G - RETIREMENT PLANS

The Foundation personnel are employees of Salt Lake City Corporation and as such, participate in the retirement plans offered to all City employees. The following summarizes information regarding the retirement plans applicable only to the City employees that make up the Foundation's personnel.

Plan Description - The Foundation contributes to the Local Governmental Noncontributory Retirement System, a cost-sharing multiple-employer defined benefit pension plan administered by the Utah Retirement Systems (Systems). The Systems provide refunds, retirement benefits, annual cost of living adjustments and death benefits to plan members and beneficiaries in accordance with retirement statutes.

The Systems are established and governed by the respective sections of Chapter 49 of the Utah Code Annotated 1953 as amended. The Utah State Retirement Office Act in Chapter 49 provides for the administration of the Utah Retirement Systems and Plans under the direction of the Utah State Retirement Board (Board) whose members are appointed by the Governor. The Systems issue a publicly available financial report that includes financial statements and required supplementary information for the Local Government Noncontributory Retirement System. A copy of the report may be obtained by writing to the Utah Retirement Systems, 540 East 200 South, Salt Lake Foundation, Utah 84102 or by calling 1-800-365-8772.

Funding Policy - In the Local Governmental Noncontributory Retirement System the Foundation is required to contribute 8.69% of plan members' annual covered salary. The contribution rates are the actuarially determined rates. The contribution requirements of the Systems are authorized by statute and specified by the Board.

The Foundation contributions to the Noncontributory Retirement System the contributions for the years ended June 30, 2006, 2005, and 2004 were \$22,368, \$22,060, and \$18,778, respectively. The contributions were equal to the required contributions for each year.

Salt Lake Arts Council Foundation
Notes to the Financial Statements
June 30, 2006

NOTE H - DEFERRED COMPENSATION PLANS

401(k) Deferred Compensation Plan - The Foundation personnel can also participate in a deferred compensation plan administered by the Utah State Retirement Board under the Internal Revenue Code Section 401(k) for Foundation employees covered by the State's contributory and noncontributory retirement plans. The plan, available to all permanent full-time Foundation employees, permits them to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency. The 401(k) deferred compensation monies are not available to the Foundation or its general creditors. The Foundation's total payroll in the fiscal year ended June 30, 2006, was \$201,700. Of that amount, \$201,700 was eligible to participate in the plan. The Foundation participates at a rate of 2.65% or 1.45% of base payroll only for those current employees who changed from the contributory state retirement plan to the noncontributory retirement plan. The 2.65% applies to current employees who changed in 1986 and the 1.45% applies to current employees who changed in 1990. The Foundation does not participate in the plan for current employees hired after 1986. The rate of Foundation participation can be changed by the Salt Lake City Council. During the year ended June 30, 2006, contributions totaling \$1,635 were made to the plan by employees and no contributions were made by the Foundation.

457 Deferred Compensation Plan - The Foundation also offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The plan, available to all Foundation employees, permits them to defer a portion of their salary until future years. Employees are eligible to voluntarily participate from the date of employment and are vested immediately upon participating. The Foundation is not obligated and does not contribute to the plan. Employees contributed \$5,580 to the plan during the year ended June 30, 2006. All payroll deducted contributions were transferred to the administering insurance companies by the due dates.

NOTE I - RISK MANAGEMENT

The Foundation is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Foundation is self-insured through Salt Lake City Corporation for general liability claims and also carries commercial liability insurance for other risks of loss. There were no decreases in coverage during 2006. Settlement amounts have not exceeded insurance coverage for the current year or the three prior years.

Expenses and claims not covered by insurance are recognized when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. In determining claims, events that might create claims, but for which none have been reported, are considered. There has been no claims liability incurred or paid for the past two years.

NOTE J - EXPENDITURES IN EXCESS OF APPROPRIATIONS

During the year ended June 30, 2006, the Foundation incurred expenditures in excess of appropriations by \$46,250. These over expenditures, in each case, resulted from higher than anticipated expenditures that occurred very close to year end. In some cases, revenues were also higher than anticipated. A public art project of unusual complexity was installed in June, and the total cost was difficult to project until the work was actually completed. For the Living Traditions Festival, both equipment rental and graphics and printing expenses were higher than projected.

REQUIRED SUPPLEMENTARY INFORMATION

Salt Lake Arts Council Foundation
Schedule of Revenues, Expenditures and Changes in
Fund Balance - Budget and Actual
General Fund
For the year ended June 30, 2006

	Original Budget	Final Budget	Actual Amounts	Variance with Final Budget Positive (Negative)
Revenues				
Grants and contributions	\$ 282,450	\$ 425,850	\$ 413,836	\$ (12,014)
Merchandise sales	155,000	216,600	217,594	994
Vendor fees	15,250	13,500	13,460	(40)
Rental income	5,500	5,000	4,465	(535)
Gallery commissions	6,500	8,000	5,972	(2,028)
Interest and miscellaneous revenues	4,000	2,000	2,512	512
Total revenues	468,700	670,950	657,839	(13,111)
Expenditures				
Current operations				
Administration	67,100	70,890	70,899	(9)
City Arts Grants	185,700	186,400	184,928	1,472
Brown Bag Concert Series	61,150	60,230	62,496	(2,266)
Twilight Concert Series	305,250	406,270	411,121	(4,851)
Living Traditions Festival	174,750	231,500	242,329	(10,829)
Visual Arts Exhibitions	54,800	56,840	55,625	1,215
Public Art	62,500	105,700	138,373	(32,673)
Other program services	71,050	61,645	59,954	1,691
Total expenditures	982,300	1,179,475	1,225,725	(46,250)
Deficiency of revenues over expenditures	(513,600)	(508,525)	(567,886)	(59,361)
Other financing sources (uses)				
Operating transfers from Salt Lake City Corporation	513,600	513,600	523,583	9,983
Total other financing sources and uses	513,600	513,600	523,583	9,983
Net change in fund balance	-	5,075	(44,303)	(49,378)
Fund balance at beginning of year	109,934	109,934	109,934	-
Fund balance at end of year	\$ 109,934	\$ 115,009	\$ 65,631	\$ (49,378)

GAAP is the budgetary basis used in the preparation of this schedule.

REPORTS ON COMPLIANCE AND INTERNAL
CONTROLS OVER FINANCIAL REPORTING

OSBORNE, ROBBINS & BUHLER, P.L.L.C. Certified Public Accountants

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REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

Board of Trustees
Salt Lake Arts Council Foundation

We have audited the financial statements of Salt Lake Arts Council Foundation, as of and for the year ended June 30, 2006, and have issued our report thereon dated August 18, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Foundation's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Foundation's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of management, others within the organization, the Board of Trustees, and the Utah State Auditor's Office, and is not intended to be and should not be used by anyone other than these specified parties.

Osborne Robbins & Buhler PLLC

August 18, 2006